

AMENDED IN ASSEMBLY APRIL 19, 2005

CALIFORNIA LEGISLATURE—2005–06 REGULAR SESSION

**ASSEMBLY BILL**

**No. 675**

**Introduced by Assembly Member Klehs**

February 17, 2005

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An act to repeal Sections 38203.5 and 38907 of the Revenue and Taxation Code, relating to taxation.

LEGISLATIVE COUNSEL'S DIGEST

AB 675, as amended, Klehs. ~~Property taxation: timber yield tax. Corporation taxes: study: book income.~~

*The Corporation Tax Law imposes taxes according to, or measured, by net income.*

*This bill would make legislative findings and declarations regarding the manipulation of accounting rules and principles by certain corporations. This bill would require the Franchise Tax Board to conduct a study of the revenue impact of, and administrative and implementation issues with, requiring certain corporations to calculate tax liability using book income, as defined. This bill would require the board to report the results of that study to the Legislature on or before June 1, 2006.*

~~The Timber Yield Tax Law, for the 1977–78 fiscal year and each fiscal year thereafter, imposes a tax on every timber owner with respect to the harvesting of timber or felled or downed timber at specified rates. The Timber Yield Tax Law disallows, subject to certain exceptions, any adjustment of yield tax rates for the years 1979, 1980, or 1981 to reflect any portion of the property tax rate levied on the unsecured roll for the 1978–79 tax year, as provided, and requires that the Controller certify for a specified period the amount necessary to restore the deficient allocations, plus the amount~~

necessary to bring the Timber Tax Reserve Fund to \$5,000,000. The specific provisions of that law providing for the restoration of any deficient allocations for the Timber Tax Reserve Fund however, were previously repealed.

~~This bill would delete these obsolete provisions relating to the adjustment of yield tax rates for 1979, 1980, and 1981, and the certification by the Controller of the amount necessary to restore certain deficient allocations.~~

Vote: majority. Appropriation: no. Fiscal committee: ~~no~~-yes.  
State-mandated local program: no.

*The people of the State of California do enact as follows:*

- 1     *SECTION 1. The Legislature finds and declares all of the*
- 2     *following:*
- 3     *(a) California has recently witnessed a growing and*
- 4     *well-publicized trend of corporations that manipulate accounting*
- 5     *rules and principles resulting in overstated earnings. The impact*
- 6     *on consumers or investors is inflated stock prices, ultimately*
- 7     *leading to investors that lose significant portions of their*
- 8     *investments, which is especially tragic when the lost investments*
- 9     *represent retirement savings.*
- 10    *(b) At the same time, there has been a growing and*
- 11    *well-publicized trend of corporations that invest in, or create,*
- 12    *abusive tax shelters through schemes and manipulation of tax*
- 13    *accounting rules that result in understated income to California.*
- 14    *(c) Studies have demonstrated a growing gap between taxable*
- 15    *income and reported book income, a gap that may generate*
- 16    *significant revenue losses to the state and that appears to result*
- 17    *from the growing use of tax shelters.*
- 18    *(d) During the spree of overstated earnings for financial*
- 19    *purposes and understated income for tax purposes, professional*
- 20    *organizations have failed to take proactive actions to curb*
- 21    *participation in these schemes and, even worse, have been*
- 22    *advocating questionable accounting practices by their own*
- 23    *members.*
- 24    *(e) Consumer confidence falls with the decline of corporate*
- 25    *accountability. Additional protection for consumers against*
- 26    *improperly inflated stock prices and protection for the citizens of*
- 27    *California against improperly reduced taxation may be achieved*

1 *by making certain corporations use the same measure of income*  
2 *for income tax purposes that they use to publicize earnings for*  
3 *financial, or Wall Street, purposes.*

4 *SEC. 2. (a) The Franchise Tax Board shall conduct a study*  
5 *of the revenue impact of, and administrative and implementation*  
6 *issues with, requiring certain corporations to calculate tax*  
7 *liability using book income as the annual measurement of income*  
8 *for state income tax purposes.*

9 *(b) Corporations impacted would be those required, by law or*  
10 *by contract, to have audited financial statements prepared at*  
11 *least annually.*

12 *(c) "Book income" means income calculated in accordance*  
13 *with generally accepted accounting principles before accounting*  
14 *for federal and state income taxes.*

15 *(d) The study shall include the following:*

16 *(1) The types of corporations that would report tax based upon*  
17 *book income pursuant to the requirement in subdivision (b),*  
18 *identified by both industry and size of the corporation.*

19 *(2) The extent of divergence between book income and taxable*  
20 *income, and the reasons for that divergence, if any.*

21 *(3) The predicted impact, by industry and size of corporation,*  
22 *of using book income as a measure of taxable income.*

23 *(4) The estimated revenue impact of using book income as a*  
24 *measure of taxable income.*

25 *(5) The options for incorporation of methods of treatments of*  
26 *losses, dividends, and other tax policy adjustments in a system*  
27 *that utilizes book income as a measure of taxable income.*

28 *(6) The differences in compliance, filing, and enforcement*  
29 *burdens as a result of using book income as a measure of taxable*  
30 *income.*

31 *(7) The advantages and disadvantages of using book income*  
32 *as an alternative measure of taxable income.*

33 *(e) The Franchise Tax Board shall report the results of the*  
34 *study to the Legislature on or before June 1, 2006.*

35 ~~SECTION 1. Section 38203.5 of the Revenue and Taxation~~  
36 ~~Code is repealed.~~

37 ~~SEC. 2. Section 38907 of the Revenue and Taxation Code is~~  
38 ~~repealed.~~